



## Definition of Collateralized Mortgage Line of Credit

Collateralized Mortgage Line of Credit (CML) is a commitment by IFC to lend funds against a pledge of mortgage assets held as collateral for IFC's obligation. Typically, the line is structured as a revolving line allowing multiplier effect for mortgage origination. This product is usually used by primary mortgage market originators and can be viable if securitization is not yet available.

## Preconditions for Collateralized Mortgage Line of Credit

- Sufficient mortgage demand to generate a pool of mortgage assets with critical mass and pre-defined diversity.
- Bankruptcy-remote security vehicle, such as a general Trust to support pledge of mortgage lien as security held by the designed structure.
- Existence of an effective lien registration system to assure IFC's interest in the collateral as a lender is recorded timely and accurately.
- Support of pledge of mortgage lien as security held by a special purpose vehicle.
- Legal system to facilitate foreclosure and eviction in the event of default by individual sub-borrowers of the underlying mortgages.

## Features of Collateralized Mortgage Line of Credit

- **Profiles of Borrowers/Sponsors**—Commercial bank, non-bank financial institutions, and specialized mortgage origination companies.
- **Currency**—US Dollar or select local currencies.
- **Security**—Mortgage assets pledged as collateral meet pre-defined eligibility criteria.
- **Key Documentation**—Loan agreement, Trust Agreement, Security Agreement, Servicer Agreement.

- **Repayment**—Through assignment of receivables from underlying mortgage repayment which will be credited to the Trust. In the event of default or when the cash flows from the underlying assets do not cover the entire debt obligations to IFC, IFC still has full recourse to the borrowers and its guarantor(s).
- **Standard Fees**—Commitment fee of 0.5% per annum on the undisbursed principal amount of the line and one-time up-front fee of 1.0% of the principal amount of the line.

## Risk Factors and Mitigants

### Credit Risk

Arising when the actual mortgage default rate goes beyond the expected level.

- External credit enhancement: corporate guarantee, insurance.
- Internal credit enhancement: Over-collateralization, debt service account.

### Legal risk

Arising from the ineffectiveness of enforceability of lien title in the event that default occurs at a significant scale.

- Legal opinion from local counsel.

### Servicer Risk

Arising from the inability of servicer to perform its obligation.

- Pre-identify a back-up servicer.

### Currency Mismatch Risk

Arising from the fact that mortgage loans are typically dominated in US dollar, while the mortgage borrowers typically earn in local currency.

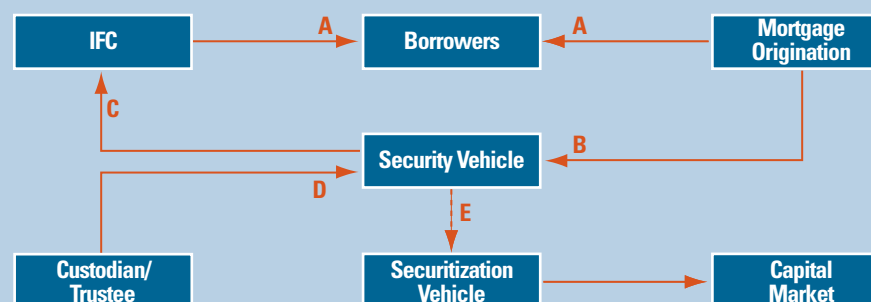
- Over-collateralization

## Impact of Collateralized Mortgage on Emerging Markets

- Increase mortgage origination volume by giving financial intermediaries access to mid and long term funds which may be difficult to secure otherwise;
- Encourage the growth of lending activities in underserved low-income sector.
- Facilitate the standardization of underwriting, documentation and servicing of mortgage business, thus helping to build up a platform for future securitization transactions;
- Contribute to improving the legal and regulatory environment for housing finance.

## How Collateralized Mortgage Line of Credit Works?

The structure described below is a generic one, and it may be modified under different context.



**A** IFC provides the CML to an eligible borrower to originate mortgage loans based upon pre-defined criteria.

**B** Borrower pledges a pool of mortgage assets to IFC as collateral of the line of credit.

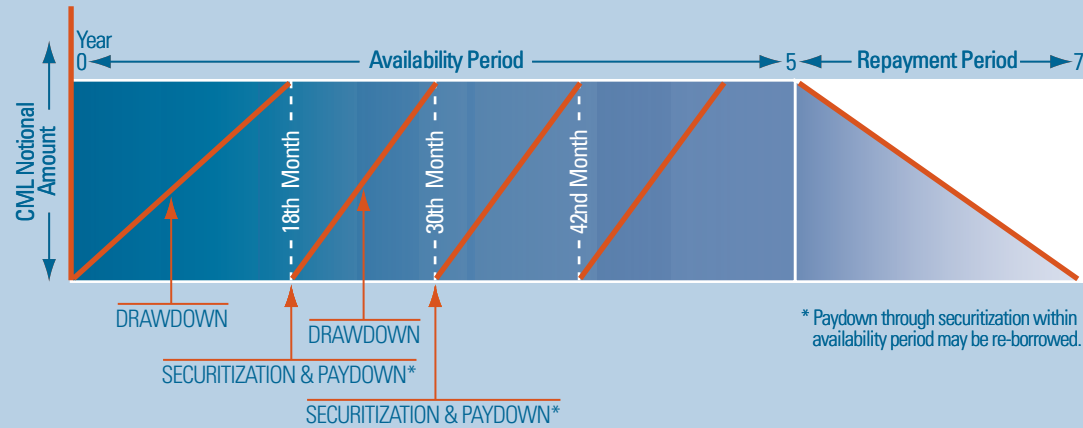
**C** The mortgage assets are held in a bankruptcy-remote security vehicle which is established for the purpose of establishing security for the line of credit; As permitted by law, all rights (including, but not limited to, collection rights) relating to such underlying mortgages would be held in such for the benefit of IFC.

**D** A reputable financial institution is selected as a trustee.

**E** After appropriate level of seasoning, assets transferred to securitization vehicle to be placed as a mortgage backed security (MBS) in the capital market. This serves as a repayment to the IFC, and can be re-borrowed by the borrower. IFC will continue to have full recourse to the Borrower in the event that cash flows from the underlying assets in such Trust do not cover the debt obligation to IFC.

## Potential Scenarios of Collateralized Mortgage Line of Credit

Assuming a US\$50 million of Collateralized Mortgage Line of Credit with a maturity of 7 years.



## Examples of IFC's Collateralized Mortgage Lines of Credit

### Asia

- Bangladesh—DBH

### Europe and Central Asia

- Romania—Romania
- Russia—DeltaCredit Bank

### Latin America and the Caribbean

- Argentina—Banco Hipotecario
- El Salvador—Hipotecaria-Elsa
- Mexico—Su Casita, HipNal, and Credito y Casa
- Panama—La Hipotecaria
- Peru—Interbank-Peru

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Promoting Access to Affordable Housing in Emerging Markets